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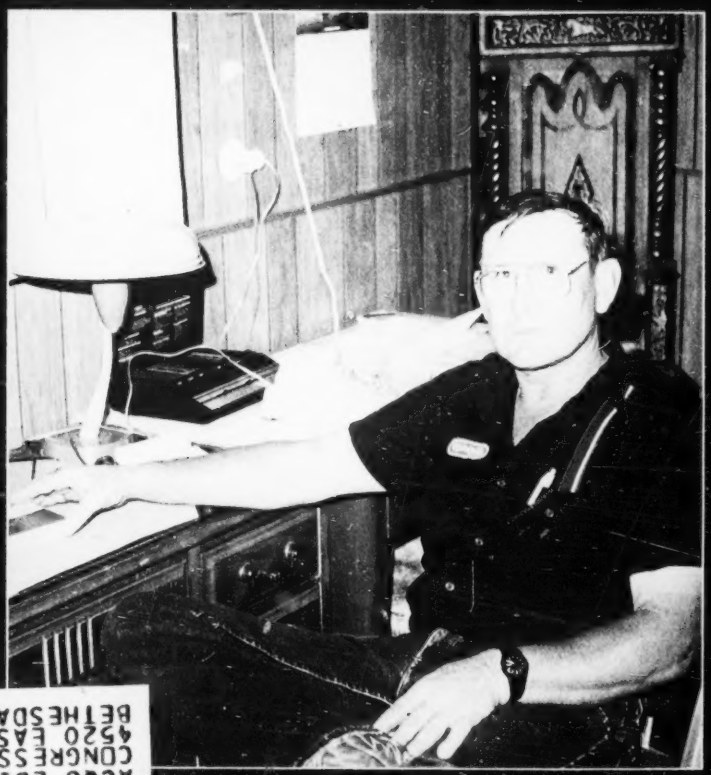
What Should You Do With Your Bulk Plant?
Trends: A New Pricing Pattern Takes Shape
Utah Dealer Gambles on Multi-profit Center

NPN

National Petroleum News

The Tough 'Little Guys'

A DYING BREED?



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NATIONAL PETROLEUM NEWS

AUGUST 1986 VOL. 78 NO. 8

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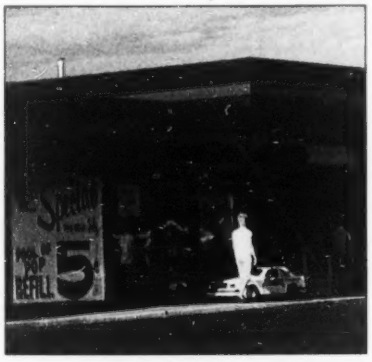
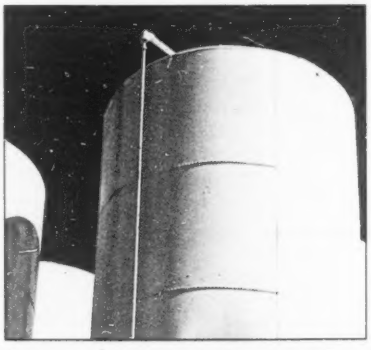
For several years now, suppliers have been telling their jobbers that the era of the small jobber is past. This month's cover report looks at a self-described small jobber and how he uses his size to his advantage. **Page 40**



Utah dealer Chris Buttars just took the wraps off his new $800,000 service center and gave us a close-up look. This 'multi-profit' center offers motorists everything from a C-store to quick lube to old-fashioned full-service. **Page 44**



Once common sight, bulk storage plants have dwindled in numbers until only a few remain today. Strict regulations and economics are the causes. Will the fallout continue? **Page 48**

• TRENDS

Do Fat Jobber Margins Signal Market Shift?

Some oil marketers are beginning to wonder if a new pricing pattern isn't developing, one that might see the wild price gyrations during the first half of this year continue well into 1987.

If such a trend is in the making, look for two things to happen. First, jobber margins on an annual or six month basis should improve. They already have, dramatically, during the first half of this year. Second, aggressive independent chain retailers will likely pick up a lot of market share at the expense of major brand dealers.

It's believed that some of the gasoline chains which practice the "low-markup, high-volume" theory of marketing have already made some spectacular gains. As the July 4th holiday approached, the stage seemed to be set for them to pick up still more volume.

As had happened for earlier this year, a very wide spread developed again in June between the prices jobbers and dealers pay for product.

Late in June, there was a spread of about 20¢ gal. between jobber buying prices and dealer tankwagon (DTW) postings. Ordinarily, the differential between these prices is about 3.5¢.

With such wide spreads, independent chain retailers and convenience store chains were having a field day again. One East Coast marketer who describes himself as a "discounter" said his average rack-to-retail margin in late-June was 12¢ gal., although he was then posting retail prices 5¢ to 6¢ below branded competition.

That wasn't an unusual situation. In the Sun Belt region, other aggressive chain retailers were once again taking their lower product buying prices to their pump islands. In Texas, just before the big July 4th weekend, some chains were posting 75.9¢ for leaded regular. Allowing about 20¢ for taxes and freight, that would yield them around 12¢ over their jobber buying prices, at that time around 43¢ to 44¢.

The latest "once in a lifetime" margin situation for many jobbers followed the much same pattern as the one earlier this year. Most of the major oil companies and many smaller integrated refiners held their DTW prices up while swiftly slashing their jobber rack postings. At one time in June, a large major's DTW price in Memphis was 61.6¢, or 15.6¢ above jobber racks.

One jobber told of taking on a a new open dealer, one who had bought his station from his supplier in June. The jobber sold the dealer gasoline at 1¢ over the jobber's cost, plus freight. The dealer got his product 12¢ gal. cheaper, saving $960 on one load, compared to the last price paid his former major supplier. Such instances were generally the exception rather than the rule however, and dealer complaints about wide spreads were again heard.

With two back-to-back fat margin situations, most jobbers are now in great position to chalk up 1986 as one of their best margin years of all time. One Southeast independent said recently that his average markup for the first six months, rack-to-retail, was 16¢ gal. This is at least triple what it was the first half of last year.

There are some large chain retailers, however, who say they don't like to see margins get too long. One has a general policy of not letting his rack-to-retail price spreads exceed around 7¢ gal. for too long a period. Another said during the first big margin windfall that he was slashing his 18¢ spreads in half. Each says they don't like to encourage some competition to either get in or stay in the gasoline business.

Some jobbers now say they wouldn't be surprised to see more dramatic and sudden swings in prices the remainder of this year and well into 1987. They think a combination of uncertain crude oil prices and speculative trading in the futures market will keep prices from stabilizing. Meanwhile, some think, the major oil companies will keep trying to get as much profit as possible out of their refining and marketing operations, due to shortfalls from the crude oil production side. This will cause them to keep trying to get as much as they can from their dealers, say some jobbers.

Loss of market share could quickly change that little scenario, of course. One chain retailer says he saw signs of "the elephants beginning to move" just before jobber prices began breaking again in June. "If we get them too stirred up, we'll get trampled." *—Marvin Reid*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

MAY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .927	$ .852	$ .923	$1.075
Regions:				
Northeast	.913	.847	.890	1.038
North Central	.925	.871	.928	1.096
South	.881	.806	.874	1.040
West	.993	.983	.992	1.176

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	6/27/86	6/28/85
Gasoline (total)	227,601	216,902
Gasoline (Unleaded)*	119,798	101,560
Jet Kerosine	39,315	35,998
Distillates	104,547	108,762
Residual	37,968	41,344

**Included in gasoline total.*
Source: American Petroleum Institute.

NPN

NATIONAL PETROLEUM NEWS AUGUST 1986

EPA's '35%' Underground Tank Leak Report Draws Industry Fire

Although it provoked more "hmphs" than "hoorays" from industry spokesmen, Environmental Protection Agency's recent report on underground storage tanks gives marketers more intimate details on their equipment and its characteristics than they've ever had before.

The report's basic finding, that 35% of the buried motor fuel tanks studied over the past two years failed EPA's specially designed tightness tests, prompted challenges and rebuttals from American Petroleum Institute, Petroleum Marketers Assn. of America and others, however.

API criticized the tests for exceeding industry norms and averages. PMAA said the methodology was faulty and, therefore, the results were inconsistent, unreliable and meaningless (see tables).

Over and above the continuing controversy that's going to go on indefinitely, however, there's much to be learned from the industry profiles, projections and statistical tables that EPA developed in the course of its nationwide studies.

Among other things, the EPA report comes to these conclusions—all, it says, with a 95% "confidence level:"

- There are an estimated 796,000 individual motor fuel storage tanks (gasoline, avgas and diesel) in the country, at 326,000 locations which include service stations, fleets and commercial garages, airports and other bigger users, and farms. The study says 158,000 of the tanks are buried on 79,000 farms.

The report also shows:

- That there is an average of two to four tanks per installation, with a median average of three, except for the farms which have an average of two tanks per installation and a median of one.
- That one out of every five tanks is installed partially or completely below the water level. EPA says this does not necessarily mean that drinking water is endangered because much of the water is unpotable in the first place.
- That the average age of buried tanks is 12 years and that there is no significant regional difference in the failure rate it recorded from coast to coast.
- That 89% of the tanks are steel, the balance fiberglass. EPA said there is no significant difference in the failure rate of steel and fiberglass tanks of comparable age, but that problems do increase for steel once they exceed 20 years of service.
- That 23% of the underground tanks are manifolded systems, i.e., linked together for operational purposes.
- That 14% of the establishments have one or more abandoned tanks on the premises. EPA's count involved 53,000 abandoned tanks with seven out of 10 establishments having only one, but some running as high as 10.
- That 15% of the storage tanks are at government and military establishments, 18% at service stations owned by major oil companies, 32% at those of the independents, and 34% at the big garages, fleet operations and airports.
- That self-installed installations (the government and the military are the biggest users of this concept) have a one out of four trouble prone possibility, while second hand tanks have a 50% chance of encountering leakage difficulties.
- That three out of 10 establishments that store motor fuel also have subterranean tanks containing waste oil.
- That seven out of 10 tank owners believe they are covered by insurance for "non-sudden" spills, while 80% believe they are also covered for "sudden" spills and leaks.

All things considered, the miscellany of tables in the EPA report should give the industry considerable insight into the characteristics and facilities of oil marketers. This particular study was limited to motor fuels—gasoline, aviation fuel and diesel fuel. Tanks associated with distillates, resids and other fuels were arbitrarily excluded.

The details, particularly the presumed failure rate, are very important, however, because they will become the basis of the EPA rules and regulations which the government hopes to announce early next year to cover underground storage tanks —their emplacement, replacement, maintenance and protective measures to guard

(Continued on following page.)

PMAA Refutes EPA Storage Tank Findings

Petroleum Marketers Assn. of America, in a memorandum rather than a public statement, sharply criticized Environmental Protection Agency's basic report that 35% of the storage tanks it examined failed to pass tightness tests.

The memorandum, issued by policy vice president Barbara Faulkner, said, in part:

"First one cannot equate the failure of an uncorroborated tightness test to an actual leak under normal operating conditions. The survey's methodology cannot support any estimate of leakage under normal operating conditions, much less a leak rate of 35%. The survey report itself acknowledges that the tightness tests give unreliable and inconsistent results.

"During a tank tightness test typical of that used by EPA, the tank is filled above the surface of the ground so that all parts of the system—including vapor lines that never contain liquid product under normal operating conditions—are exposed to fuel. If there are loose fittings or worn gaskets at or above the top of the tank, the tank may fail the test, although it may never leak product under normal operating conditions."

PMAA cited data from Dade County, Fla., and from several oil companies that suggested a maximum leakage rate of 0.97% to 2%. In addition, PMAA questioned the accuracy of EPA's nose count of the buried tanks, saying it was below industry estimates and even some of EPA's own documents.

American Petroleum Institute added, "At least three major oil companies which have used the same underground tank tightness test as the EPA found vastly different results with complete follow-up tests. Actual rate leaks for these three companies ranged from 0.97% to 2.0% when original tightness test failures ranged from 13% to 26%.

Underground Tanks, Continued . . .

against leaks and spills.

In making its 24-month long study of selected service stations and other locations, EPA said it could not find a commercial testing procedure that could adequately measure leakage rates at the level approved by National Fire Protection Assn. as its standard.

This rate is 0.05 gal./hour—about three-quarters of a cup. EPA's modified system for its tests had a response rate of about 0.1 gal./hour—about 1½ cups. EPA's modifications included procedures to overcome "interferences" such as ambient and soil temperatures, water tables, vapor pockets and barometric fluctuations.

EPA initially collected data from 890 establishments, having 2,445 tanks then concentrated on 218 establishments with 433 tanks for its "conclusive" results.

What irked industry people was that EPA filled all of the tanks to 100% capacity, then added additional pressure during its evaluation testing for tightness. Only at fill-up times, when tanks are generally loaded to capacity, are such high levels achieved. Most of the time, industry marketers said, the storage tanks are well below the capacity and/or peak levels.

Thus, they said, tanks and the interrelated pipelines under such critical conditions, could indicate stress signals at connection points, topside valves and even actual imperfections on the top areas that might otherwise never be involved as trouble spots.

EPA said its 35% failure rate indicated the average leak was 0.31 gal./hour—about five cups full, while half were under that at four cups an hour.

EPA said it made back-to-back tests and retests at times to confirm its findings. Although the agency leaned over backwards to say in its announcement that the 35% failure rate did not automatically mean conversely that 35% of the nation's motor fuel storage tanks are leaking now or intermittently, some general news media excitedly misinterpreted the data, prompting industry spokesmen to issue "not true" responses.

EPA said it could not say how many tanks are leaking currently. It said, "we do not think 35% of the tanks are leaking under actual operating problems." Nevertheless, it added, "we do think this is a significant problem" out there.

API, as part of its comment, said comparable studies by three oil companies produced "vastly different" results, all well below the EPA findings. PMAA said it will continue to challenge the EPA data at every turn and that for its part, "the methodology was wrong and the results, therefore, are tainted, unreliable and meaningless." NPN

How Many Tanks Are There?

Environmental Protection Agency's national survey of underground motor fuel storage tanks indicates there are 638,000 of them buried at 247,000 locations in the contigious 48 states. In addition, there are 158,000 other tanks buried on 79,000 farms. This gives a U.S. total of 796,000 tanks at 326,000 locations, according to EPA.

These are motor fuel tanks only containing gasoline, aviation fuel and diesel fuel. In the tables below, the farm tanks and locations are not included because of the way, EPA says, their totals would affect and possibly bias the regional and industry breakouts.

How Many There Are . . .

Survey Region	Tanks at Gov't. & Military Estabs.	Tanks at Major Oil Co. Stas.	Tanks at Independ. Oil Co. Stas.	Tanks at Other Fuel-Related Estabs.	Tanks at Large Non-related Fuel Estabs.	Totals
Northeast						
Number	25,000	29,000	61,000	27,000	44,000	187,000
% in Reg.	14%	16%	33%	14%	24%	100%
Southeast						
Number	17,000	24,000	40,000	12,000	33,000	126,000
% in Reg.	14%	19%	32%	9%	26%	100%
Midwest						
Number	26,000	25,000	52,000	16,000	20,000	139,000
% in Reg.	19%	14%	29%	15%	23%	100%
Central						
Number	13,000	10,000	23,000	9,000	9,000	63,000
% in Reg.	20%	15%	37%	14%	14%	100%
Mountain						
Number	7,000	4,000	13,000	5,000	7,000	36,000
% in Reg.	20%	11%	36%	13%	20%	100%
Pacific						
Number	10,000	26,000	14,000	8,000	28,000	87,000
% in Reg.	12%	29%	16%	10%	33%	100%
Totals						
Number	98,000	118,000	204,000	77,000	142,000	638,000
% All Reg.	15%	19%	32%	12%	22%	100%

. . . And the Number of Establishments

Northeast						
Number	13,000	7,000	17,000	11,000	21,000	69,000
% in Reg.	19%	10%	24%	16%	31%	100%
Southeast						
Number	7,000	7,000	11,000	6,000	17,000	48,000
% in Reg.	15%	15%	23%	12%	35%	100%
Midwest						
Number	10,000	7,000	16,000	8,000	12,000	53,000
% in Reg.	19%	14%	29%	15%	23%	100%
Central						
Number	6,000	3,000	7,000	4,000	7,000	27,000
% in Reg.	24%	11%	25%	15%	29%	100%
Mountain						
Number	3,000	1,000	4,000	2,000	4,000	14,000
% in Reg.	20%	8%	28%	15%	29%	100%
Pacific						
Number	5,000	8,000	4,000	6,000	12,000	35,000
% in Reg.	15%	23%	11%	16%	35%	100%
Totals						
Number	45,000	33,000	58,000	36,000	74,000	247,000
% All Reg.	18%	13%	24%	15%	30%	100%

TOMA Replaces Fellers With Veteran Assn. Exec.

The Texas Oil Marketers Assn. chose an experienced, award-winning trade association executive from the transportation industry late-June to replace Dave Fellers, TOMA's aggressive, former executive vice president, who resigned earlier in the year over differences in association goals.

TOMA selected James E. Shillingburg, of Austin, who previously served for 14

James E. Shillingburg

years as vice president of the Texas Motor Transportation Assn.

"I'm still on cloud nine," said Shillingburg, who was scheduled to join the TOMA staff on July 15.

Shillingburg, whose background is primarily in transportation and trucks, candidly admits that one of the first duties at TOMA will be to get to know petroleum marketing.

"Jim is highly respected among his peers and members of the Texas legislature," said Lynton Allred, the new TOMA president. "His association management and legislative experience in Austin will serve TOMA well."

Shillingburg, 48, is a graduate of the University of Texas and was certified by the American Society of Association Executives (ASAE) in 1978. This year, the ASAE honored him with the group's "Fellows" Award, presented to 17 outstanding association executives in the U.S.

Commenting on Feller's resignation, Shillingburg said, "The association is for the membership. It's their association. Dave's tremendous. He did a good job. But we all get into situations where personalities are different."

Shillingburg expressed excitement over receiving the position with TOMA. "I've been around the oil patch all my life, and now to have the responsibility of being TOMA's new executive VP—it's exciting." *NPN*

Oil Companies to Trim 17% Of Capital Outlays in '86

A new capital spending forecast by McGraw-Hill, Inc., confirms the blood letting outlines that have emerged since the collapse of the crude oil market last winter—major cutbacks in exploration and production, but only moderate pruning in downstream marketing.

The latest update, issued in late-May, says the industry as a whole is trimming capital spending 17% in 1986, 11.2% in 1987 and 1.3% in 1988. In dollars and cents, that reduces capital spending to $40.5 billion in 1986 versus $49.3 billion in 1985; $36 billion in 1987 and $35.5 billion in 1988.

Marketing, based on a survey made last October, had been expected to have a $4 billion year in capital spending in 1985 [*NPN*—Feb. '86, p30]. But then the world literally fell apart during the winter months and throughout the first four months of 1986.

The new projection pegs marketing expenditures at $3.2 billion for 1986, down 12.9% from 1985's estimated figure of $3.7 billion. They're expected to increase 2.3% in 1987, then decline again 5.7% to $3 billion in 1988. *NPN*

(In billions of dollars)

Segment	1985	1986	% Change	1987	% Change	1988	% Change
Marketing	$ 3.667	$ 3.193	(12.9)	$ 3.265	2.3	$ 3.079	(5.7)
Exploration/ production	38.045	23.642	(28.5)	23.481	(0.7)	22.715	(3.3)
Refining	3.376	2.622	(22.3)	2.068	(21.1)	2.070	0.5
Trans.	3.795	6.425	69.3	1.831	(71.5)	1.798	(1.8)
Petrochem.	.940	1.361	38.4	1.783	37.1	1.952	9.5
Other*	4.442	3.344	(24.7)	3.556	6.3	3.906	9.8
Total	**$49.265**	**$40.527**	**(17.7)**	**$35.984**	**(11.2)**	**$35.528**	**(1.3)**

(*) Misc., may include some duplications.
Source: McGraw-Hill, 39th annual spring survey of business plans for new plants and equipment, re-issued May 1986.

Oil Companies Win Two PMPA Cases

Oil refiners are free, under the Petroleum Marketing Practices Act (PMPA), to turn service stations into pumper-only outlets without first having to offer full-service dealers the option to buy the facility, separate courts in California and Minnesota have ruled.

The cases involved full-service operators David Valentine, a Mobil dealer from Scottsdale, Ariz.; and Ronald Radecki, an Amoco dealer in St. Paul, Minn.

Valentine and Radecki performed auto repairs and offered auto accessories for sale at their outlets, but both balked in 1983 when the oil companies initiated plans to convert to pumpers. PMPA suits were filed by the dealers after Mobil and Amoco terminated the franchises.

The PMPA requires oil companies to offer dealers the right of first refusal on the purchase of a service station which is materially altered. Valentine and Radecki argued that the full-service-to-pumper conversion kicked in the PMPA provision.

But the courts disagreed. In a 2-1 decision, the 9th Circuit Court of Appeals in San Francisco upheld a lower court ruling granting Mobil summary judgment over Valentine. Judge Alex Kozinski, writing the majority opinion, said the PMPA provision cited by Valentine addressed only a situation where the oil company is intent on terminating a franchise. Mobil wanted the relationship with Valentine to continue, Kozinski wrote, and was justified in reserving the right to convert to a pumper.

Kozinski noted district court testimony revealed that Mobil included "redevelopment riders"—clauses in franchise contracts giving the oil company permission to redevelop service station premises—in all of its franchise agreements. Further, Kozinski said Valentine failed to show an ulterior motive on Mobil's part.

In the Radecki case, Judge Paul Magnuson of the U.S. District Court for Minnesota found that Amoco was justified in taking action to terminate Radecki since he refused to agree to the pumper conversion. "That the franchisor can act to alter the franchise . . . in response to changed market and economic circumstances, even to the detriment of the franchisee, is consistent with . . . the PMPA and its legislative history," Magnuson wrote. *NPN*

Refinery Shutdowns in 1985

The U.S. oil refining industry lost a total of 242,000 b/d of crude refining capacity in 1985 as a result of shutdowns, but gained 175,000 b/d capacity from new and reactivated units, according to the Energy Information Administration.

The total net loss for the year was 68,000 b/d in refining capacity, leaving a total capacity of 15.5 million b/d for the nation [*NPN*—July '86, p14].

Here's the EIA's rundown on closings and reactivations from Jan. 1, 1985, to Jan. 1, 1986:

SHUTDOWNS

Refiner/Location	Crude Distil. Cap. (b/d)	Downstream Cap. (b/d)	Years in Operation
Allied Materials Corp., Stroud, Okla.	7,600	2,500	37+
Amer. Refining Group, Indianola, Pa.	180	0	3
Ashland Oil Co., Freedom, Pa.	6,800	3,600	37+
B-T Energy Corp., Louisville, Ky.	3,000	0	3
Coastal Petroleum Refiners, Bakersfield, Calif.	10,000	0	6
Conoco, Alvin/Texas City, Texas	33,274	0	22
Damson Gas Processing, White Deer, Texas	0	1,000	12
Flint Chemical Co., San Antonio, Texas	1,500	0	23
Gary Refining Co., Fruita, Colo.	15,200	27,100	19
Golden Eagle Refining, Carson, Calif.	16,170	0	37+
International Processors, St. Rose, La.	28,356	14,000	6
Kenco Refining, Wolf Point, Mont.	4,700	0	8
Morrison Petroleum, Woods Cross, Utah	6,000	0	11
Texaco Refining & Marketing, Amarillo, Texas	20,000	24,400	37+
Texaco Refining & Marketing, Lawrenceville, Ill.	79,000	134,000	37+
Tropicana Energy, Fort Worth, Texas	4,650	0	19
Vicksburg Refining, Vicksburg, Miss.	6,000	0	7
TOTAL	242,430	206,000	

NEW/REACTIVATED

			Status
Arco Alaska, Anchorage, Alaska	12,000	0	New
Barrett Refinery, Thomas, Okla.	9,300	0	React.
Hill Petroleum, Krotz Springs, La.	55,300	77,000	React.
Leal Petroleum, Nixon, Texas	16,397	0	React.
Primary Oil & Energy, Chester, Va.	1,900	0	New
Sabre Refining, Bakersfield, Calif.	10,000	0	React.
Seminole Refinery, St. Marks, Fla.	17,000	11,390	React.
Silver Eagle Oil, La Barge, Wyo.	2,500	1,300	React.
South Hampton Refining, Silsbee, Texas	20,250	5,700	React.
Trifinery, Corpus Christi, Texas	30,000	25,000	React.
TOTAL	174,647	120,390	

Gasoline Tax Hikes Hit Six States

Motorists in six states had to pay more for their motor fuel supplies this summer because of June and July increases in gasoline and diesel fuel taxes.

Here are the states involved: Tennessee —4¢ on gasoline and 2¢ on diesel to 17¢ and 15¢ gal., respectively; Colorado—6¢ on gasoline and 7.5¢ on diesel to 18¢ and 20.5¢ gal., respectively; Connecticut—1¢ on gasoline and diesel to 17¢ gal. for both; Kentucky—5¢ on gasoline and diesel to 15¢ gal. for both; Nebraska—2.3¢ on gasoline and diesel to 19¢ gal. for both; Virginia—A flat 15¢ gal. for gasoline and diesel fuel in lieu of a variable rate.

The state taxes are in addition to the 9¢ federal and the local taxes that are imposed in some places. Highest taxes—local, state and federal—are in Illinois, Indiana and Nebraska, at 28¢ gal. each; and in Colorado and Washington, at 27¢ gal. each. NPN

Price Not As Vital In Heating Choice: MEC

A new marketing study by Metropolitan Energy Council (Greater New York area), says that price is losing its significance as a factor in consumer evaluation and purchase of heating equipment.

Asked the blunt question: "What is the single most important factor in choosing a heating system for the coming winter," only 20% cited price. MEC says that's an 11% drop since last year, and a 50% drop since its first survey in 1981.

Ray Hanney, a Brooklyn dealer who heads up MEC's study committee, says this is the second year in a row and the third in four years that equipment efficiency was chosen as the No. 1 factor by consumers.

"What this tells us is that equipment efficiency, when kept simple, can be equated by consumers to miles per gallon in their cars," he stated.

Safety was chosen by consumers participating in the study as the second most important factor in their decision-making processes.

Meanwhile, at a Better Home Heat Council (Massachusetts) conference, Joseph Vassallo, marketing vice president of Whaleco Corp., New York, confirmed that price alone isn't that important anymore. He said that image—as reflected by quality, service and reliability—is a better marketing tool than price, especially in a head-on contest with dealers in a C.O.D. market. NPN